

DECISION MEMORANDUM OF THE FEDERAL HOUSING FINANCE BOARD
ACTING WITHOUT A QUORUM

Date: February 9, 1995
No. 95-DM-09

ISSUE: Approval to transfer the responsibility for the execution and administration of the Federal Home Loan Bank (FHLBank) System's external financial audit contract from the Federal Housing Finance Board (Finance Board) to the FHLBanks, subject to certain terms and conditions, effective with the contract for the audit of the financial statements of the 12 FHLBanks, the Office of Finance (OF), the Financing Corporation (FICO) and the combined financial statements of the FHLBanks for the year ending on December 31, 1995.

FACTORS CONSIDERED: The Federal Home Loan Bank Act, as amended, established the Finance Board to supervise the FHLBanks, OF and FICO and to ensure that the FHLBanks carry out their housing finance mission in a safe and sound manner.

To fulfill these responsibilities, the Finance Board has required that an independent accounting firm perform annual audits of the financial statements of the FHLBanks, OF and FICO and the combined financial statements of the FHLBanks. Additionally, the Finance Board has had responsibility for the execution and administration of the System external audit contract.

While the external financial audit reports are essential to the discharge of the oversight and safety and soundness responsibilities of the Finance Board, the execution and administration of the contract under which an accounting firm produces the reports is not a function that must be accomplished by the Finance Board.

In view of the ongoing Governance Project, and the fact that one of its top ten priority issues is the external audit contract, the Finance Board has considered whether it would be preferable for this function to be performed by the FHLBanks.

To ensure that the contract is executed and administered in a manner consistent with Finance Board requirements for consistency in accounting practices employed and presentation of the financial statements, certain terms and conditions for the transfer of the contract must be included.

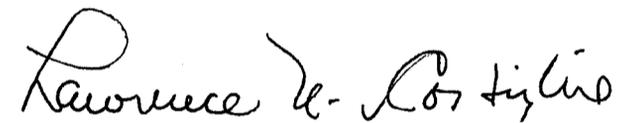
DECISION: The Finance Board approves the transfer of the responsibility for the execution and administration of the FHLBank System's external financial audit contract to the

FHLBanks, effective with the contract for the audit of the financial statements of the FHLBanks, OF and FICO and the combined financial statements of the FHLBanks for the year ending on December 31, 1995, subject to the following terms and conditions:

- o There must be a single independent external auditor for the FHLBank System;
- o The auditor must perform a separate independent audit and render a separate audit report on the financial statements of each of the 12 FHLBanks, OF and FICO;
- o The auditor must perform a separate independent audit and render a separate audit report on the combined financial statements of the FHLBanks;
- o The audits must be conducted in accordance with generally accepted auditing standards and in accordance with the most current Government Auditing Standards issued by the Comptroller General of the United States;
- o The Finance Board examiners must have access to all of the external auditor's workpapers;
- o The auditor must meet at least twice during the year with the audit committee of each Bank, the Board of Directors of OF and the Board of Directors of FICO;
- o The auditor must consult with appropriate Finance Board staff should any substantive accounting issues arise during the course of the audits; and
- o The external financial audit contract that is to be executed and administered by the FHLBanks must be approved by the Board of Directors of the Finance Board prior to final award.

Further, in light of this action, Decision Memorandum No. 94-DM-32 is rescinded.


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